CRA, Planners, and Neighborhood Development

Three years ago, the Community Reinvestment Act (CRA) was enacted as Title VIII of the Housing and Community Development Act of 1977 (Public Law 95-128). The Act requires financial institutions to define their local service area, and to detail the services they are providing for that area. Neighborhood organizations, fighting for years to end redlining and credit discrimination in their neighborhoods, saw the act as a great victory. Lenders viewed the law as an anathema, and tantamount to "credit allocation"; they claimed the next step would be for the federal government to require them to make imprudent loans. This article examines the potential of CRA as a tool for neighborhood revitalization, and the role for local planners in effectively using that tool to encourage reinvestment in lower-income neighborhoods.

COMMUNITY REINVESTMENT ACT

The purpose of CRA, as explained by Senator William Proxmire, the Bill's sponsor, is "to require each appropriate federal financial supervisory agency to use its authority when examining financial institutions to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions" (CRA, §802(b)). Those federal agencies involved are the Federal Deposit Insurance Corporation, which regulates insured banks not belonging to the Federal Reserve System, the Comptroller of the Currency, which regulates national banks, the Federal Home Loan Bank Board which regulates savings and loan associations, and the Federal Reserve Board which regulates bank holding companies and banks that belong to the Federal Reserve System.

The Act requires each lender to identify its local community and explain how it is serving the needs of that local community "including low and moderate income neighborhoods." The findings are published by the lender in a CRA statement which must be available for public inspection. The public is free to comment on the Statement, and those comments must be kept on file. The regulators, in their periodic examination of the institution, use the CRA Statement and comments to assess how the lender is meeting the credit needs of its entire community.

The real thrust of CRA only becomes apparent when a lender applies to its regulator for a structural change, such as opening a new branch facility, relocating an office, merging with another institution, acquiring another institution's assets or shares, or chartering

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a new institution. When considering the requested change, the regulator makes a more careful assessment of the lender's CRA obligations, taking into account such factors as the willingness of the lender to ascertain local credit needs, the geographic distribution of the institution's loans (this data is required by the Home Mortgage Disclosure Act of 1975), evidence of discriminatory credit practices, participation in community development programs (such as Neighborhood Housing Services, local development corporations, community development block grant programs, etc.), and participation in government supported loans.

When an application for one of these structural changes is filed, public notice is given, and the federal regulator must accept comments from affected parties. These parties can be other lenders, local government, civil rights groups, public interest groups, or neighborhood organizations, who file a "protest" or "challenge" under CRA to the application. The regulator is given wide discretion in the manner of conducting the CRA assessment, but where there is sufficient activity aroused by the institution's application, hearings or negotiations may be held, or a settlement sought.

The CRA settlement is the primary goal of most organizations which challenge an application; merely asking for denial of the application is a lost opportunity. Many groups are beginning to see the potential for negotiation with their local lenders through the CRA process. A CRA Guidebook, jointly written by HUD's Office of Neighborhoods, Voluntary Association and Consumer Protection, the U.S. Conference of Mayors, the National Community Development Association, and the Center for Community Change includes chapters on "Using CRA Analysis to Negotiate with Lenders" and a "Model Loan Policy Agreement." These chapters were based on a settlement reached by the Adams Morgan Association, Perpetual Federal Savings and Loan Association, and other neighborhood groups in Washington, D.C.

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CRA challenges have been pursued across the country with varying degrees of success. Of particular interest to planners should be the challenge to First Federal Savings and Loan Association filed by the City of Cleveland, through its Division of Economic Development. The protest involved First Federal's closing a branch facility on Cleveland's black East Side, and applying to open one in a white suburb of Akron. The City argued, using Home Mortgage Disclosure Act data, that the credit needs of minority neighborhoods were not being met, and asked the Federal regulator (in this case, the Federal Home Loan Bank Board) to deny the application. A settlement was quickly reached requiring First Federal to lend $15 million to applicants within the City of Cleveland for mortgages and home improvement loans over the next two years. The City also let it be known to other lenders that their performance was being watched as well.

In New York, a challenge by South Brooklyn Against Investment Discrimination (AID) to Greater New York Savings Bank resulted in the first denial of an application on CRA grounds. Greater New York had applied for a new branch facility in Manhattan, but the FDIC found that the Bank's overall record indicated a lack of commitment to its client neighborhood of Brooklyn. Since that denial in April, 1979, the Bank has launched aggressive lending programs in several New York City neighborhoods, and parts of Brooklyn have been rediscovered by the "brownstoning" movement. AID has become a major actor in monitoring bank performance, filing challenges, and seeking settlements. Quickly following on their success with Greater New York, they reached settlements with New York Bank for Savings and Franklin Savings Bank, generating millions of dollars of additional investment in Brooklyn neighborhoods.

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Other organizations have also successfully challenged the lenders. Legal Aid Foundation of Los Angeles secured a pledge from Home Federal Savings and Loan of San Diego to make $3.5 million in loans per year in low-income neighborhoods. Wellston Association for Community Organization Reform Now (ACORN) in Missouri negotiated with Landmark Bancshares for withdrawal of their challenge to Landmark's acquisition of a small bank in exchange for $1 million in investment in Wellston neighborhoods.

However, far more challenges have failed--in Toledo, Ohio; Philadelphia, PA; Buffalo, NY; and Meridian, Mississippi--allowing branches to be closed, assets to be transferred, and the deterioration of neighborhoods to continue. Sympathy by regulators to CRA challenges is not deep, and lenders are committed to preventing neighborhood groups from encroaching on their decision-making. A study of CRA challenges being conducted by the Woodstock Institute, a Chicago-based public interest research group, shows the success of AID, ACORN, Legal Aid, and the City of Cleveland to be the exception rather than the rule. Clearly, the regulators are not interested in denying a large number of applications based on the challenges of non-bankers, despite the obvious needs of neighborhoods for reinvestment. Neither is there a clear understanding by the regulators of how much can be required of lenders without jeopardizing the "safety and soundness" of the institution.

SOUTH SHORE BANK: A NEIGHBORHOOD LENDING INSTITUTION

In 1973, the South Shore Bank of Chicago was purchased by a group of investors representing church groups, foundations, corporations and individuals. That group, Illinois Neighborhood Development Corporation, intended to demonstrate that lenders could indeed go a long way in reinvesting in a lower-income neighborhood without jeopardizing the safety and soundness of their institution. It intended to show that responsibility to neighborhood credit needs could be a way of doing business, and not a grudging concession to neighborhood groups.

The South Shore area of Chicago is a neighborhood that saw the classic scenario of decline. Located eight miles from downtown, on Chicago's lakefront, the neighborhood was developed in the early part of the century as a commuter suburb, white and middle class in character. It enjoyed good transportation, the most exclusive neighborhood shopping area in the city, and such amenities as beaches, golf courses and the elegant South Shore Country Club. In the 1960s, however, in-migration of minorities set off a cycle of disinvestment and decline. Minority population grew from 1% in 1960 to 72% in 1970 and 95% in 1975. The change was accompanied by the self-fulfilling prophecies of racial transition: housing deteriorated and was abandoned, local merchants fled, and the quality of city services declined. The former owners of the South Shore Bank cut back on cus-

Multifamily mortgages amounted to $4.8 million in the South Shore area by the end of 1979.

Photo courtesy of Erica Pascal

tomer services and allowed the deposit base of the Bank to decline to over 50%. When Illinois Neighborhood Development Corporation purchased the Bank in 1973, a study conducted by the University of Chicago that year indicated that South Shore residents felt that the neighborhood would continue to deteriorate.

In 1980, this neighborhood of 80,000 people still faces serious problems. Median family income is $13,000, approximating the median for the City of Chicago, and 20% of the residents receive some form of public assistance. Housing deterioration continues to be a serious problem, and the six commercial strips in the neighborhood contain numerous vacancies and marginal businesses. Yet South Shore Bank has been able to invest over $25 million in the neighborhood with a delinquency and default rate on its loans that are well within the norms for the banking industry. And, a follow-up study by the University of Chicago in 1979 indicated that many residents feel that the neighborhood has "turned around."

The experience of South Shore Bank should indicate to other lenders that this type of lending need not be viewed as an invitation to bankruptcy. In the area of single family mortgage lending, for example, the Bank has invested $11.8 million in South Shore homes and, correspondingly, has seen home values in the neighborhood double since 1973. An additional $1.5 million has been invested in South Shore housing through rehabilitation loans. Multi-family mortgage lending amounted to $4.8 million by the end of 1979. Neither the size of the loans nor the criteria used in making lending decisions is different from that applied by other lenders, except that, rather than writing off any area as too risky for invest-

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ment, the Bank has chosen to concentrate its resources in the neighborhood, and has been rewarded with a very stable mortgage loan portfolio. Just as neighborhood decline is often a self-fulfilling prophecy based on the expectation of that decline, reinvestment can build value. As an example of the way bank lending can build value, multifamily building purchases through South Shore Bank must always be accompanied by a rehabilitation loan. The major criteria in these rehab loans are improvements to the structural soundness,

The South Shore Bank has invested over $25 million in the neighborhood.

Photo courtesy of Mary Holmes

security, and energy efficiency of the building. These improvements better insure the continued viability of the building (and, of course, the Bank's collateral position as lender), and improve the owner's ability to attract and maintain tenants without pricing the apartments out of the rental market for the neighborhood. In 1978 and 1979, this type of lending affected 25 buildings containing 900 units of housing in South Shore (about 2.5% of the neighborhood's housing stock).

At this rate of housing improvement, however, change will indeed come slowly to South Shore. Illinois Neighborhood Development Corporation therefore developed another subsidiary, City Lands Corporation, to increase the pace of housing redevelopment in South Shore. This year, they will begin the largest current multifamily rehabilitation effort in the country in partnership with two other lender-affiliated redevelopment corporations (RESCORP, owned by a consortium of Chicago savings and loan associations, and First Chicago Neighborhood Development Corporation, a subsidiary of the First National Bank of Chicago). The project will involve major rehabilitation of 20 buildings containing 540 units in a concentrated four-block area in the most deteriorated section of South Shore.

Small business lending is another area in which South Shore Bank has concentrated its energies and resources. Over $4.8 million in commercial development loans have been made in the neighborhood since 1973. The Bank has been able to demonstrate that careful assistance to borrowers, and creative loan structuring can produce successful businesses in any neighborhood. For example, the Bank retains on its staff a small-business consultant, whose role is to attract development opportunities to the neighborhood, and join them with local entrepreneurs. She also assists local merchants seeking Bank financing with store design, advertising and display, and purchase and inventory systems. The goal of the Bank is to produce new businesses which will improve the appearance and quality of merchandise on the neighborhood's commercial strips.

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In loan structuring, the Bank has tried to take advantage of every possible government program to write down the cost of money to borrowers, and to reduce the risk to the Bank. The guaranty programs of the Small Business Administration (SBA) have been extensively used. Also, at Bank initiation, an SBA-licensed local development company was formed by local merchants. This company, the South Shore Area Development Company, can secure low-cost funds from the SBA for local merchants. In 1979, nine businesses received a combination of Bank and local development company financing of over $1.2 million.

To provide local merchants with a continuing source of technical assistance, the Bank was instrumental in helping the South Shore Commission secure $55,000 in Community Development Block Grant funds from the City of Chicago for a Revitalization Center. The Center will assist neighborhood businesses with problems ranging from bookkeeping to merchandising and renovation, taking the same kind of assistance offered by the Bank to a larger audience.

Another area in which the Bank has developed creative financing mechanisms is in lending to community organizations. Community groups, day care centers, clinics, and other organizations which have government contracts often have short-term cash flow problems because of bureaucratic slowness. The Bank has made a practice of advancing funds against these contracts, to be repaid directly by an assignment of the contract proceeds. Other organizations have secured Bank loans with the guaranty of local foundations, or the personal guarantees of individuals involved with or sympathetic to the organization. This type of lending relieves many of the cash crises which community groups regularly face, and allows needed services to continue in the neighborhood.

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Finally, the South Shore Bank has firmly adopted the attitude that community responsibility involves not only lending to the neighborhood, but listening to the neighborhood. The Bank regularly consults its Resident Advisory Board on matters of Bank hours and services, and neighborhood credit needs. Bank staff have spoken before numerous community organizations and block clubs in the neighborhood, encouraging them to use Bank services and attempting to dispel the image of not caring about the neighborhood. In preparation of its 1980 CRA statement, the Bank went to organizations such as the South Shore Chamber of Commerce, the South Shore Commission, and the South Shore Ministerial Association for their comments on Bank performance in the neighborhood. The Presidents of the Resident Advisory Board and the South Shore Commission sit as voting members on the Board of Directors of Illinois Neighborhood Development Corporation.

Despite significant investment, there are still commercial vacancies and marginally solvent businesses. *Photo courtesy of Walter S. Mitchell*

APPLICABILITY OF THE SOUTH-SHORE EXPERIENCE

The attitude of South Shore Bank toward its local community has made it unique, but the methods used by the Bank are available to any financial institution interested in neighborhood revitalization. Many lenders are beginning to use the tools available, and to devote resources and energy to programs aimed at revitalizing lower-income and minority neighborhoods:

· Since the first program was established in 1968, Neighborhood Housing Services has expanded to over 50 sites in 40 cities. Money to support both the operation of the program, and the special loan fund, comes from local financial institutions.

· Local development corporations, funded by the Small Business Administration, have grown dramatically in recent years. They provide low-cost money to local merchants as part of a total financial package made in participation with local lenders.

· Neighborhood real estate development or rehabilitation ventures such as City Lands and RESCORP, are growing. In New York City, Community Preservation Corporation has rehabilitated over 2300 units of multifamily housing in the past five years. CPC is owned by a consortium of New York's largest lenders. The Comptroller of the Currency has recently granted permission to First National Bank of Chicago and North Carolina National Bank to form community development subsidiaries which will direct their attention to low-income neighborhoods.

"PLANNERS ALSO CAN PROVIDE TECHNICAL ASSISTANCE TO ORGANIZATIONS DEVELOPING CRA CHALLENGES."

· The Philadelphia Mortgage Plan has been operating since 1975, before CRA and the Home Mortgage Disclosure Act, to provide mortgages in lower-income neighborhoods through a special risk-sharing program initiated by a group of local lenders.

There are many more examples of institutions developing a sensitivity to neighborhoods and neighborhood needs. At least some of this recent interest is due to CRA, and lenders' desire to avoid a potentially lengthy battle with neighborhood groups and regulators. Helping these lenders meet their affirmative obligations toward neighborhoods is an opportunity planners should not ignore, and CRA is a wonderful tool to make sure they listen. The experience of South Shore Bank and other examples of lender involvement shows that neighborhood reinvestment is probably less risky than loans to Iran or REITs. What often may be lacking on the part of lenders is the knowledge of the possibilities for involvement, their lack of expertise in using certain programs, or the lack of a mediator between lenders and neighborhood groups.

WHAT PLANNERS CAN DO

Today, interest rates are at unprecedented levels. Inflation is pushing homeownership beyond the reach of most of the middle-class, as well as lower-income home seekers. The federal government's push for an austerity budget will be felt in cutbacks to federal programs for housing, and community and economic development. Clearly, we must begin to develop new ways to implement programs and continue the process of neighborhood revitalization, and to translate neighborhood development needs into credit programs.

First, planners can play a useful role to financial institutions because they understand government programs. The Small Business Administration and the Federal Housing Administration have loan guaranty programs; other agencies have resources that can be tapped. Lending the expertise of local government or public interest planners to institutions willing to undertake those programs can prove to be a fruitful partnership.

Second, as the cost of using private funds increases and the availability of public funds diminishes, leveraging must become a way of doing business. Community Development Block Grant funds can be used to subsidize interest rates, allowing lower-income families access to mortgage and rehabilitation monies, or allowing local merchants to expand their businesses. These funds can also be used in a grant/loan program, reducing the amount of the loan and thereby the amount of debt, even with high interest rates. "Lump sum" deposits of Community Development funds in a financial institution earn income which can be applied to neighborhood development programs. There will no longer be enough public funds available for planners to think solely in terms of grantmaking; increasingly, we will have to think about leveraging, development financing, and capitalization.

A third role for planners is in analysis and technical assistance. Home Mortgage Disclosure Act data is publicly available and can be used to identify lenders who are deficient in their CRA performance. Local governments also have data on home values, neighborhood family income, analyses of neighborhood needs, and other statistics compiled for federal government programs. If the local government is unwilling to confront the financial institutions itself (and a city may not want to bite the hand that buys its bonds), that information is at least available to public interest groups and neighborhood organizations who can use it to file their own CRA challenges. The Northeast Ohio Areawide Coordinating Agency, a regional planning commission, chose that role to assist local groups in defining their lending needs.

Planners also can provide technical assistance to organizations developing CRA challenges. One reason why some CRA challenges have failed is that the regulators did not feel they were substantiated, or that the organization filing the challenge did not have a clearly-defined settlement with which to negotiate. After a settlement is reached, there will often be a continuing need to monitor the performance of the institution to ensure that the credit needs of the neighborhood are truly being met by the lender.

Finally, planners interested in neighborhood revitalization should be planning for the future. The need to be creative in developing programs for neighborhood revitalization will only increase. Certainly, CRA is one tool that has enormous potential. Recently, South Shore Bank calculated that the cost of its development loan program in 1979 was $3.72 per person in South Shore. At that cost, 25 of the largest banks in the country, with assets of $673 billion dollars, and earnings of $4.1 billion, could provide that same development loan service to 16.7 million people.[1]
An opportunity like that should not be taken lightly.

NOTES

[1] 1979 Annual Report: South Shore Bank. Chicago, Illinois.